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Bond Insurers Under Fire

Frank to Criticize The Private Sector

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By [Andrew Ackerman](#)

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WASHINGTON - House Financial Services chairman Barney Frank, D-Mass., today will criticize private-sector market participants, particularly bond insurers, for playing a key role in hampering municipal issuers' access to capital markets, and will give them one month to find a way to help resolve the turmoil in the muni market.

In a brief telephone interview yesterday before his committee's hearing on municipal bonds this morning, Frank said that if the private sector does not find a way to help issuers, he will push Congress to consider some form of federal response, though he declined to elaborate. Other members of his panel, notably Rep. Paul Kanjorski, D-Pa., have suggested recently that an optional federal charter, under which a federal entity would regulate bond insurers, may be a good idea.

"The private market has inflicted harm on the municipalities," Frank said. "It is incumbent on [private sector participants] to do something about it and I'm going to give them a deadline."

Asked which specific private-sector players are responsible for the widespread problems faced by issuers, Frank said: "First of all, the insurance companies." They "screwed up" when they insured speculative structured-finance products after backing safe muni deals, he explained. They insured a safe product and then took that money and speculated in ways that they endangered the cities and town that they were insuring, he said, adding, "This is the private sector having facilitated harm."

Frank stressed the safety of municipal credits by highlighting their low default rate and suggested that insurance is unnecessary for many municipal securities just as it is unnecessary for Treasury bonds, which are backed by the full faith and credit of the United States and have never defaulted.

Frank also acknowledged that he has invested heavily in municipal securities - disclosure filings show that in 2007 he held between \$624,000 and \$2.68 million in municipal debt - and joked that a resolution to the market problems might be against his own interests because of the high interest rates some municipalities are offering for their munis.

Issuers "are paying an unjustified risk premium," he said. "With a double tax exemption, it's a great bargain."

In a separate interview yesterday, Rep. Spencer Bachus, the ranking minority member on the committee, said that he is eager to hear about the credit crunch's impact on the municipal market, but that he is not yet prepared to recommend any legislative remedies. The Alabama Republican said he hopes that bond insurers will quickly find a way to raise their capital and boost their reserves, and that the Securities and Exchange Commission will soon release guidance for issuers who want to bid on their own auction-rate securities. But

he said he does not believe there is any consensus that legislation would be helpful.

"The experience we've gone through in the past few months... as opposed to legislation, is going to be the best influence on the market going forward," he said. "Sometimes even with legislation you don't avoid mistakes."

Neither Frank or Bachus would say if they support a proposal by California Treasurer Bill Lockyer and others for bond rating agencies to harmonize their municipal ratings with their corporate ratings scale. In a letter sent last week to the three major rating agencies, Lockyer, joined by 14 of his peers, argued that municipal issuers are unfairly penalized by "differential rating standards" for corporate and municipal debt, which have unnecessarily punished tax-exempt bond issuers and contributed to the turmoil in the muni market.

Lockyer, who will address the committee today, plans to ask Congress to support his effort, said his spokesman Tom Dresslar. "We want them to fully appreciate the impact on taxpayers across the country, and we want them to support our effort to sit down with the rating agencies and develop a unified rating system that works better for taxpayers, investors and the market," Dresslar said.

The idea appears to have the support of others who are expected to address the committee. Robin L. Wiessmann, Pennsylvania's treasurer,

Similarly, Martin Vogtsberger of Fifth Third Securities Inc., who is to speak on behalf of the newly-formed Regional Bond Dealers Association,

Meanwhile, Weissmann will urge federal regulators to provide stopgap measures, such as a temporary suspension of trading, when disruptions in the muni market occur. She also will urge Congress to raise the bank-qualified debt

limit from the current \$10 million level to \$25 million and permit issuers an additional advance refunding. Current law permits bonds to be advance refunded once.

Lynn Hume contributed to this story.

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